Report

of the

Examination of

Barron Mutual Insurance Company

Barron, Wisconsin

As of December 31, 2004

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 26, 2005

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2004, of the affairs and financial condition of:

BARRON MUTUAL INSURANCE COMPANY
Barron, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Barron Mutual Insurance Company (the company) was made in 2000 as of December 31, 1999. The current examination covered the intervening time period ending December 31, 2004, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on April 18, 1891, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Oak Grove Farmers’ Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was no amendment to the articles of incorporation or the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Barron	Washburn
Polk	Rusk
Dunn	Sawyer
Burnett	Bayfield

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one month, three months, six months, or one year with premiums payable on the advance premium basis. The company also charges a fixed policy fee of $20 to all types of policies.

Business of the company is acquired through eight agents, four of whom are directors of the company. Agents presently receive 10% commission for all new and renewal business on all types of policies.

Agents do not have the authority to adjust losses. All adjusting is done by independent adjusting firms at different rates depending on the property, extent of survey, and location.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Lowell Farr*	Insurance Agent	Cumberland, WI	2007
Carl Kringle	Retired	Rice Lake, WI	2006
James Lenbom*	Insurance Agent	Cameron, WI	2005
Arvid Anderson	Insurance Agent	Turtle Lake, WI	2005
Carsten Ellison*	Insurance Agent	Barron, WI	2006
Gary Frisle*	Farmer/Insurance Agent	Prairie Farm, WI	2005
Richard Packenham	Retired	Cameron, WI	2007
Richard Petersen	Retired	Rice Lake, WI	2006
Savert Olson	Retired	Barron, WI	2007

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50 (half-day), $100 (whole day) for each meeting attended and $0.35 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	Annual Salary
Lowell Farr	President	$ 1,200
Arvid Anderson	Vice President	0
James Lenbom	Secretary/Treasurer	0
Karen Smith	Manager	48,900

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee	Investment Committee
Lowell Farr	Lowell Farr
Richard Packenham	Carl Kringle
James Lenbom	James Lenbom

Barron Mutual Insurance Agency

In 1998, Barron Mutual Insurance Company established Barron Mutual Insurance Agency, Inc., to service books of business the company was purchasing from retiring insurance agents. Barron Mutual Insurance Company currently owns all 37 outstanding shares of stock, issued by Barron Mutual Insurance Agency, Inc., with a par value of $1,000 a share. Prior to the formation of the agency, the company requested and received approval for the transaction, pursuant to s. Ins 6.20 (6) (d) 4., Wis. Adm. Code.

Barron Mutual Insurance Agency, Inc., and Barron Mutual Insurance Company are affiliates as defined by s. 600.03 (1), Wis. Stat. The same individuals manage both companies. Given that Barron Mutual Insurance Agency, Inc., and Barron Mutual Insurance Company are affiliate entities, the company is required to ensure that transactions with Barron Mutual Insurance Agency are reasonable and fair to the interests of the insurer, pursuant to s. 612.18, Wis. Stat.

The company and its affiliates share certain costs and have entered into formal agreements that recognize these operating arrangements. During the examination these agreements were determined to be reasonable.

The affiliation of Barron Mutual Insurance Company creates an insurance holding company system. Insurance holding companies are required to file a registration statement by June 1 of each year in accordance with s. Ins 40.03, Wis. Adm. Code. It was noted that the company had complied with the filing requirement.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2004	$1,236,659	2,478	$295,837	$2,145,985	$1,446,304
2003	1,166,423	2,550	339,036	1,749,661	956,212
2002	1,043,042	2,539	304,651	1,353,024	662,714
2001	811,728	2,627	(24,743)	1,000,995	440,377
2000	752,955	2,727	50,413	1,024,751	441,716
1999	734,660	2,882	99,472	845,902	381,357

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios	
				Net	Gross
2004	$1,806,537	$1,244,882	$1,446,304	86%	125%
2003	1,752,271	1,201,022	956,212	126	183
2002	1,631,926	1,207,529	662,714	182	246
2001	1,471,715	839,217	440,377	191	334
2000	1,373,299	697,031	441,716	158	311
1999	1,420,752	758,838	381,357	199	373

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Com-posite Ratio
2004	$429,841	$417,846	$1,236,659	35%	34%	69%
2003	393,760	386,411	1,166,423	34	32	66
2002	414,328	333,955	1,043,042	40	28	68
2001	592,437	252,841	811,728	73	30	103
2000	584,187	247,055	752,955	78	35	113
1999	437,506	246,130	734,660	60	32	92

Premium has increased during the period under examination primarily due to increases in real estate values. The increase in surplus during the past three years is primarily due to increase in unrealized capital gains attributed mostly by the increase in value of Wisconsin Reinsurance Corporation stock held. Loss and expense ratios were high in 2000 and 2001 due to windstorm, hail and fire losses that occurred during those years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2005, continuous
Termination provisions:	Either party may terminate the contract on any January 1 by giving 90 days' advance notice to the other party

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Class A Excess of Loss

   Lines reinsured: All liability (nonproperty) business

   Company's retention: $5,000 in respect to each and every loss occurrence

   Coverage: 100% of each and every loss occurring on the business in excess of the company's net retention, subject to the maximum policy limits below:

   a. $1,000,000 per occurrence, single limit of combined for bodily injury and property damage liability
   b. $1,000,000 split limits, in any combination of bodily injury and property damage liability
   c. $5,000 for medical payments, per person; $25,000 per accident

   There is a $1,000 deductible where raw milk contamination occurs on an insured dairy farm that does not have evidence of completion of the Dairy Quality Assurance Program within 12 months of the loss.

   Reinsurance premium: 50% of the premium written for each and every policy issued by the company.

   Ceding commission: None

2. Type of contract: Class B First Surplus

   Lines reinsured: All property business

   Company's retention: When the company's net retention is $300,000 or more in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to $800,000. When the company's net retention is $300,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to

		accept up to 50% of such risk. The company shall retain, as an Annual Aggregate Deductible, an amount equal to 10% of the loss and loss adjusting expenses otherwise recoverable.
	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded.
	Reinsurance premium:	The pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of each risk ceded.
	Ceding commission:	Sliding scale. The current rate is 15%.
3.	Type of contract:	Class C-1 Excess of Loss – First Layer
	Lines reinsured:	All property business
	Company's retention:	$40,000 per loss occurrence
	Coverage:	100% of any loss, including LAE in excess of $40,000 in respect to each and every risk resulting from one loss occurrence. Reinsurer's limit is $60,000 in respect to each and every loss occurrence.
	Reinsurance premium:	Based on the prior four years' losses incurred by the reinsurer divided by the total of the net premiums written for the same period multiplied by the factor 100/80ths. The minimum rate is 7% and the maximum is 20%. The current rate is 12.5%.
	Ceding commission:	None
4.	Type of contract:	Class C-2 Excess of Loss – Second Layer
	Lines reinsured:	All property business
	Company's retention:	$100,000 per loss occurrence
	Coverage:	100% of any loss, including LAE in excess of $10,000 in respect to each and every risk resulting from one loss occurrence. Reinsurer's limit is $200,000 in respect to each and every loss occurrence.
	Reinsurance premium:	1.75% of current net premium written; minimum premium of $20,000.
	Ceding commission:	None
5.	Type of contract:	Class D/E Stop Loss
	Lines reinsured:	All business written by the company

Company's retention:	Part A – Catastrophe $75,000 of net losses, excluding loss adjustment expenses, per each loss occurrence. Part B – Stop Loss Net losses (including loss adjustment expenses) equal to not less than 60% of the company's net premium written, subject to a minimum net retention of $700,000. The minimum retention does not apply in the event of rehabilitation, liquidation or dissolution.
Coverage:	Part A – Catastrophe 100% above company's retention, not to exceed $250,000 per loss occurrence or $500,000 during annual period. Part B – Stop Loss 100% of the amount, if any, by which the aggregate of the company's losses (including loss adjustment expenses) which occur during any annual period exceed the retention.
Reinsurance premium:	The rate in effect shall be determined by taking the sum of the eight years' losses incurred under both Part A and Part B by the reinsurer divided by the total of the net premiums written for the same period multiplied by the factor 100/80ths, subject to a minimum rate of 7.5% and a maximum rate of 25% of current net written premiums. The rate for the current annual period is 10%. Minimum premium for the current year is $120,000.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Barron Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2004

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 100	$	$	$ 100
Cash deposited in checking account	2,982			2,982
Cash deposited at interest	362,698			362,698
Bonds	761,529			761,529
Stocks and mutual fund investments	809,847			809,847
Real estate	25,794			25,794
Premiums, agents' balances and installments:				0
In course of collection	7,032		141	6,891
Deferred and not yet due	0			0
Investment income accrued		7,744		7,744
Reinsurance recoverable on paid losses and lae	111,842			111,842
Electronic data processing equipment	0			0
Fire dues recoverable	3,164			3,164
Reinsurance premium recoverable	40,882			40,882
Other expense related assets:				
Agency Receivable	12,512			12,512
Furniture and fixtures	12		12	0
Other nonadmitted assets:				
Investment in cooperatives	99		99	0
Totals	$2,138,493	$7,744	$252	$2,145,985

Liabilities and Surplus

Net unpaid losses	$ 36,892
Unpaid loss adjustment expenses	2,414
Commissions payable	15,877
Federal income taxes payable	46,328
Unearned premiums	536,930
Amounts withheld for the account of others	3,273
Payroll taxes payable (employer's portion)	1,338
Other liabilities:	
Expense related:	
Accounts payable	1,406
Nonexpense related:	
Premiums received in advance	55,223
Total Liabilities	$ 699,681
Policyholders' surplus	1,446,304
Total Liabilities and Surplus	$2,145,985

Barron Mutual Insurance Company
Statement of Operations
For the Year 2004

Net premiums and assessments earned		$1,236,659
Deduct:		
Net losses incurred	$365,093	
Net loss adjustment expenses incurred	64,748	
Other underwriting expenses incurred	417,846	
Total losses and expenses incurred		847,687
Net underwriting gain (loss)		388,972
Net investment income:		
Net investment income earned	48,658	
Net realized capital gains	(734)	
Total investment gain (loss)		47,924
Other income (expense):		
Miscellaneous income	17,280	
Total other income		17,280
Net income (loss) before federal income taxes		454,176
Federal income taxes incurred		158,339
Net Income (Loss)		$ 295,837

Barron Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2000	2001	2002	2003	2004
Surplus, beginning of year	$381,357	$441,716	$440,377	$662,714	$ 956,212
Net income	50,413	(24,743)	304,651	339,036	295,837
Net unrealized capital gains or (losses)	18,780	(13,741)	(83,594)	(45,609)	194,349
Change in nonadmitted assets	(3,899)	32,206	1,280	71	(94)
Other changes in surplus:					
Amortization of agency – nonadmitted portion	(4,935)				
Prior period subsidiary adjustment		4,939			
Surplus, end of year	$441,716	$440,377	$662,714	$956,212	$1,446,304

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' surplus per December 31, 2004, annual statement			$1,446,304
Item	**Increase**	**Decrease**	
Net Unpaid Losses	$17,318	$	
Total	$17,318	$	
Decrease to Surplus per Examination			17,318
Policyholders' Surplus per Examination			$1,428,986

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Barron Mutual Insurance Agency—It was recommended that the company report required transactions with affiliates at least 30 days in advance pursuant to s. Ins 40.04 (2), Wis. Adm. Code.

   Action—Compliance

2. Barron Mutual Insurance Agency—It was recommended that the company file holding company reports annually in accordance with s. Ins 40.03, Wis. Adm. Code.

   Action—Compliance

3. Invested Assets—It was recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, with regard to custody and control of its invested assets by taking possession of its invested assets or by obtaining a safekeeping agreement with a bank or banking and trust company to hold the company's investments.

   Action—Compliance

4. Transition into the New Investment Rule—It was recommended that the company develop a formal investment plan, in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

   Action—Compliance

5. Transition into the New Investment Rule—It was recommended that the company make no additional Type 2 investment until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

   Action—Compliance

6. Stocks and Mutual Funds—It was recommended that the company divest its common stock and stock mutual funds that are not in compliance with the new investment rule.

   Action—Compliance

7. Stocks and Mutual Funds—It was recommended that the company properly report their common stock investment in Barron Mutual Insurance Agency on Schedule D of the annual statement.

   Action—Compliance

8. Unpaid Loss Adjustment Expenses—It was recommended that the company adopt an actuarial method, such as the paid to paid methodology, in order to determine a more adequate loss adjustment expense reserve.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 250,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Employment Practices Liability	1,000,000 each claim/aggregate limit
Directors and Officers Liability	1,000,000 each claim/aggregate limit
Property:	
Building	150,200
Business Personal Property	81,900
Valuable Papers	25,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. The company hired an inspection firm to do the inspections. All new business is being inspected. As of the date of the examination, the company has done half of the existing homeowner's book of business and plans to do the other half this year. The agents also review the existing policies every three years and are asked to visit the premises at that time.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records to the bank statements and noted that a total of $76,441.40 was not deposited immediately. It had lapsed for two weeks before it was deposited. As stated in s. Ins 13.05 (4) (a), Wis. Adm. Code, “All checks in payment of premium or received by the company for other purposes shall be endorsed for deposit immediately upon receipt. All cash receipts shall be deposited at least weekly.” Considering the time constraint during the examination, the examiner used one month only as sample period for the test. Regardless of the sample coverage, the company’s failure to deposit on time is a violation. It is therefore recommended that the company endorse cash receipts for deposit immediately and make such deposits at least weekly, pursuant to s. Ins 13.05 (4) (a), Wis. Adm. Code

Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2004. No significant findings other than those described were noted.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company’s electronic data processing environment. Access to the computers is limited to all staff that are authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company’s software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building.

The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 999,681
2.	Liabilities plus 33% of gross premiums written	1,295,838
3.	Liabilities plus 50% of net premiums written	1,322,122
4.	Amount required (greater of 1, 2, or 3)	1,322,122
5.	Amount of Type 1 investments as of 12/31/2004	1,280,320
6.	Excess or (deficiency)	$ (41,802)

The company does not have sufficient Type 1 investments and has not purchased any new Type 2 investments since prior exam.

ASSETS

Cash and Invested Cash **$365,780**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 100
Cash deposited in banks-checking accounts	2,982
Cash deposited in banks at interest	362,698
Total	$365,780

Cash in company's office at year-end represents the company's petty cash fund. The amount is considered immaterial. The examiner, however, conducted an interview and observation to evaluate the controls over petty cash and found them to be adequate.

Cash deposited in banks subject to the company's check and withdrawal consists of only one bank account. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amount shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of eight deposits in eight depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2004 totaled $16,196 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.85% to 5.0%. The examiner noted that there was no due and accrued interest at year-end.

Book Value of Bonds **$768,398**

The above asset consists of the aggregate book value of bonds owned by the company and held by the custodian bank as of December 31, 2004.

The examiner traced the bonds to the custodial statement at year-end and noted no significant discrepancies. Further, the examiner traced the bond purchases and sales for the period under examination to brokers' invoices and advices and found them to be in order. The company's investment in bonds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. As of December 31, 2004, the company held four non-investment grade bond issues. Since the company does not have sufficient Type 1 assets and hasn’t had such for the last five years, it is not qualified to continue to hold certain of these bonds. Pursuant to s. Ins 6.20 (6) (g), Wis. Adm. Code, a town mutual insurer shall divest any investment which does not meet the requirements to be classified as Type 1 investments due to decline in the rating of bond or mutual fund, the insurer’s size, limitations on investment or any other reason, within three years of its noncompliance, unless otherwise permitted or required by the commissioner. Two of the company’s bond investments, JC Penney and the St. Paul Port Authority were downgraded to a below investment grade rating (BBB) prior to December 31, 2001. Thus, the time period for divestment of these bonds under s. Ins 6.20 (6) (g), Wis. Adm. Code, has expired. The company’s other two non-investment grade holdings (Dillard’s and Georgia Pacific) were downgraded during 2002. Consequently, the time period for divestment of these bond issues has nearly expired as well. It is recommended that the company comply with s. Ins 6.20 (6) (g), Wis. Adm. Code, by divesting of its JC Penney and the St. Paul Port Authority bonds within 60 days of the adoption of this report. It is also recommended that the company establish procedures to monitor the ratings of its bond portfolio, Type 1 investment adequacy and other factors related to its qualification to hold Type 2 investments, pursuant to s. Ins 6.20 (6) (c) - (g), Wis. Adm. Code.

Interest received during 2004 on bonds amounted to $45,664 and was traced to cash receipts records. Accrued interest of $7,744 at December 31, 2004, was verified by examination and allowed as a non-ledger asset.

Stocks and Mutual Fund Investments $809,847

The above assets consist of $759,470 aggregate market value of stocks and mutual funds and $50,377 common stock of Barron Mutual Insurance Agency (a wholly-owned subsidiary) as of December 31, 2004.

The examiner traced the stocks and mutual funds to the custodial statement as of December 31, 2004. The examiner verified the common stock of Barron Mutual Insurance Agency against the agency’s financial statements and found the asset to be properly reported.

Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2004 on stocks and mutual funds amounted to $15,285 and were traced to cash receipts records. The examiner noted that there were no due and accrued dividends at year-end.

Book Value of Real Estate $25,794

The above amount represents the company's investment in real estate as of December 31, 2004. The company's real estate holdings consisted of its home office building.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection $6,891

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Investment Income Accrued $7,744

The above asset represents accrued interest income on bonds at December 31, 2004, which was verified by examination and allowed as a non-ledger asset.

Reinsurance Recoverable on Paid Losses and LAE $111,842

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2004. The examiner reviewed the year-end accountings with the reinsurer and found the above asset to be fairly stated.

Fire Dues Recoverable **$3,164**

This asset represents the amount overpaid to the State of Wisconsin for 2004 fire department dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The examiner verified the actual amount paid against the cash disbursement records.

Reinsurance Premium Recoverable **$40,882**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2004. The examiner verified the balance directly with the reinsurer’s invoices and records and found it to be accurate.

Agency Receivable **$12,512**

The asset represents the agency’s accumulated rent, administration fee, postage and office supplies, and telephone charges for the year. The examiner reviewed the company’s supporting documents and records and subsequent cash receipts and found the above amount to be fairly stated.

The examiner verified the terms of payment with regard to the above account against the Agency Service Agreement and noted that the agency has not been paying amounts due on a quarterly basis in accordance with the agreement. It is therefore recommended that the company enforce prompt collection from Barron Mutual Insurance Agency with regard to the quarterly charges and fees in conformity with the Service Agreements.

Furniture and Fixtures **$0**

This asset consists of $12 of office furniture and equipment owned by the company at December 31, 2004. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Investment in Cooperatives **$0**

This consists of investments with Farmers Union, $26.08, and with Country Pride Coop, $73.38. In accordance with annual statement requirements, the investments had been reported as nonadmitted assets, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$36,892**

This liability represents losses incurred on or prior to December 31, 2004, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2004, with incurred dates in 2004 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule:

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$63,937	$81,255	$(17,318)
Less: Reinsurance recoverable on unpaid losses	27,045	27,045	0
Net Unpaid Losses	$36,892	$54,210	$(17,318)

The examination has reflected the above difference in the schedule titled "Reconciliation of Policyholders' Surplus."

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$2,414**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2004, but which remained unpaid as of year-end. The company used a paid-to-paid methodology in establishing this liability.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$15,877**

This liability represents the commissions payable to agents as of December 31, 2004. The examiners reviewed the company’s subsequent commission payments and found the liability to be reasonably stated.

Federal Income Taxes Payable **$46,328**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2004.

The examiners reviewed the company's 2004 tax return and verified amounts paid to cash disbursement records and the liability to be reasonably stated.

Unearned Premiums **$536,930**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established on a daily pro rata basis. Policy data was tested and recalculated to verify the accuracy and reasonableness of this liability.

Amounts Withheld for the Account of Others **$3,273**

This liability represents employee payroll deductions in the possession of the company at December 31, 2004. The examiner verified supporting records and subsequent cash disbursements related to payroll taxes withheld and found this liability to be accurate and cleared on a timely basis.

Payroll Taxes Payable **$1,338**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2004, which had not yet been paid. The examiner verified supporting records and subsequent cash disbursements related to payroll taxes accrued and found this liability to be accurate and cleared on a timely basis.

Accounts Payable **$1,406**

This liability represents accrued expenses on janitorial services, utilities, inspections, and other expenses at year-end. The examiner verified supporting records and subsequent cash disbursements related to the expenses noted above and found the liability to be fairly stated.

Premiums Received in Advance **$55,223**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2004. The examiner reviewed 2004 premium and the related cash receipts and recalculated advance premium amounts. Based on the tests performed, this account is found to be properly recorded and fairly stated.

V. CONCLUSION

The company's net premium earned has almost doubled since the last examination, from $734 thousand in 1999 to $1.2 million in 2004. The growth is primarily attributed to rising real estate values on insured properties. The number of policies in force remained almost the same with a slight increase in gross premiums written.

The financial condition of the company has been improving for the last three years, reporting an average net income of approximately $313,000. The increase in surplus is also attributable to the $194,000 of net unrealized capital gains mostly due to increase in value of Wisconsin Reinsurance Corporation common stock. The company had been incurring net unrealized capital losses in prior years.

The current examination has determined the surplus reported by the company to be overstated by $17,318 due to an under estimate of the loss reserves of the same amount.

All recommendations from the prior examination was complied with by the company as of current examination. The current examination resulted to three new recommendations as summarized in the following section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Accounts and Records—It is therefore recommended that the company endorse cash receipts for deposit immediately and make such deposit at least on a weekly basis pursuant to s. Ins 13.05 (4) (a), Wis Adm. Code .

2. Page 21 - Book Value of Bonds—It is recommended that the company comply with s. Ins 6.20 (6) (g), Wis. Adm. Code, by divesting of its JC Penney and the St. Paul Port Authority bonds within 60 days of the adoption of this report. It is also recommended that the company establish procedures to monitor the ratings of its bond portfolio, Type 1 investment adequacy and other factors related to its qualification to hold Type 2 investments, pursuant to s. Ins 6.20 (6) (c) - (g), Wis. Adm. Code.

3. Page 23 - Agency Receivable—It is therefore recommended that the company enforce prompt collection from Barron Mutual Insurance Agency with regard to the quarterly charges and fees in conformity with the Service Agreements.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Stephen Elmer of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Angelita M. Romaker
Examiner-in-Charge